



03011697

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

OMB APPROVAL

OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden
Hours per response 12.00

SEC FILE NUMBER

8-26128

8-44759

REPORT FOR THE PERIOD BEGINNING 1/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Clarion American Securities, Inc.

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
1108 North Milwaukee Street, Suite #236

(No. and Street)

Milwaukee,
(City)Wisconsin
(State)53202-3154
(Zip Code)NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Michael A. Nath (414) 277-7888
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Hau & Associates, S.C.

(Name - if individual, state last, first, middle name)

1208 West Layton Avenue,
(Address)Milwaukee,
(City)Wisconsin
(State)53221
(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED
MAR 24 2003
THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, Michael A. Nath, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Clarion American Securities, Inc., as of February 27, 20 03, are true and correct. I further swear (or affirm) that neither the Company nor any partner, proprietor, principal officer or director has any proprietary in any account classified solely as that of a customer, except as follows:

State of Wisconsin
Milwaukee County

Sally A. Brown
Notary Public

Comm Exp. 4-16-06

[Signature]
Signature

President
Title

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information relating to the Possession or control Requirements Pursuant to Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A or Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

CLARION AMERICAN SECURITIES, INC.

ANNUAL AUDIT REPORT

DECEMBER 31, 2002 AND DECEMBER 31, 2001

Prepared by:

Hau & Associates, S. C.
Certified Public Accountants
1208 West Layton Avenue
Milwaukee, WI 53221

CLARION AMERICAN SECURITIES, INC.

DECEMBER 31, 2002 AND DECEMBER 31, 2001

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of operations and retained earnings (accumulated deficit)	3
Statements of stockholder's equity	4
Statements of cash flows	5
Notes to financial statements	6 – 10
SUPPLEMENTARY INFORMATION	
Report of independent auditor on supplementary data	11
Statements of changes in stockholder's equity	12
Statements of changes in liabilities subordinated to claims of general creditors	12
Computation of net capital	13
Computation of excess net capital requirement	13
Reconciliation of <u>unaudited</u> computation of net capital to <u>audited</u> computation of net capital	14
Reconciliation of the <u>unaudited</u> computation of excess net capital to the <u>audited</u> computation of excess net capital	14
Letter on internal accounting control	15

INDEPENDENT AUDITOR'S REPORT

February 27, 2003

To the Board of Directors of
Clarion American Securities, Inc.

We have audited the accompanying statements of financial position of Clarion American Securities, Inc. as of December 31, 2002 and December 31, 2001 and the related statements of operations and retained earnings (accumulated deficit), statements of stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clarion American Securities, Inc. as of December 31, 2002 and December 31, 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 13 to the financial statements, the ability of the Company to continue as a going concern is dependent upon management's ability to successfully negotiate payment terms with taxing authorities regarding delinquent payroll taxes, and obtaining the necessary licensing to permit the sale of common stock held for net capital purposes. These conditions raise doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Hau & Associates, S.C.

CLARION AMERICAN SECURITIES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001

ASSETS	As of December 31, 2002			As of December 31, 2001		
	Allowable	Non- Allowable	Total	Allowable	Non- Allowable	Total
Current Assets:						
Cash	\$ 1,447	\$ -	\$ 1,447	\$ 752	\$ -	\$ 752
Prepaid expenses	-	1,887	1,887	-	1,951	1,951
Corporate income tax estimates	140	-	140	140	-	140
Investment in common stock available for sale (identified cost of \$39,585) - Note 2 & 3	22,923	6,372	29,295	79,105	13,960	93,065
Total current assets	24,510	8,259	32,769	79,997	15,911	95,908
Fixed Assets:						
Office equipment	-	9,248	9,248	-	8,898	8,898
Furniture and fixtures	-	4,769	4,769	-	4,769	4,769
Total cost	-	14,017	14,017	-	13,667	13,667
Less: Accumulated depreciation	-	(13,737)	(13,737)	-	(13,465)	(13,465)
Net fixed assets - Note 2 & 4	-	280	280	-	202	202
Other Assets - Deferred income taxes - Note 6	-	905	905	-	17,119	17,119
Total Assets	\$ 24,510	\$ 9,444	\$ 33,954	\$ 79,997	\$ 33,232	\$ 113,229

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities:		
Accounts payable	\$ -	\$ -
Property taxes payable	89	225
Deferred income taxes - Note 6	-	11,613
Corporate income taxes payable - Note 6	-	-
Payroll taxes payable	10,162	4,377
Total current liabilities	10,251	16,215
Contingent Liabilities - Note 10		
Stockholder's Equity:		
Common stock - no par value; 8,000 shares authorized; 100 shares issued and outstanding - Note 7	\$ 16,240	\$ 16,240
Additional paid-in-capital	107,038	107,038
Retained earnings (accumulated deficit)	-	(68,131)
Accumulated unrealized gain (loss) on securities, net of deferred income taxes	(89,285) (10,290)	41,867
Total stockholder's equity	23,703	97,014
Total Liabilities and Stockholder's Equity	\$ 33,954	\$ 113,229

The accompanying notes are an integral part of the financial statements.

CLARION AMERICAN SECURITIES, INC.
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (ACCUMULATED DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

	For the Years Ended December 31	
	2002	2001
Revenues:		
Underwriting fees	\$ 50,000	\$ 47,500
Mutual fund commissions	3,256	1,477
Total revenues	53,256	48,977
Expenses:		
Officer salaries - Note 5	\$ 30,000	\$ 30,000
Related payroll taxes	2,351	2,446
Accounting	3,969	4,309
Bank charges	255	227
Commissions	734	1,244
Depreciation	272	381
Dues and subscriptions	2,600	2,626
Entertainment	1,873	4,656
Insurance	638	509
Legal	-	250
Licenses and permits	90	125
Miscellaneous	598	442
Office supplies	2,775	1,105
Personal property taxes	(67)	261
Rent - Note 9	3,560	2,075
Repairs and maintenance	-	153
Telephone	1,602	2,382
Travel	2,278	681
Utilities	150	-
Vehicle expenses	622	907
Total operating expenses	54,300	54,779
Operating income (loss)	\$ (1,044)	\$ (5,802)
Other income (expense):		
Interest	\$ (405)	\$ -
Miscellaneous	(3,491)	(610)
Income (loss) before taxes	\$ (4,940)	\$ (6,412)
Income tax expense (credit) - Note 2 and 6	16,214	(763)
Net income (loss) for the year	\$ (21,154)	\$ (5,649)
Retained earnings (accumulated deficit)- beginning of year	(68,131)	(62,482)
Retained earnings (accumulated deficit) - end of year	\$ (89,285)	\$ (68,131)

The accompanying notes are an integral part of the financial statements.

CLARION AMERICAN SECURITIES, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

	Common Stock	Additional Paid-in-capital	Retained Earnings (Deficit)	Securities, Net of Deferred Income Taxes	Total
Balances, December 31, 2001	\$ 16,240	\$ 107,038	\$ (68,131)	\$ 41,867	\$ 97,014
Increase in paid-in-capital	N/A	-	N/A	N/A	-
Net income (loss)	N/A	N/A	(21,154)	-	(21,154)
Other comprehensive income:					
Unrealized gain (loss) on securities (Note 3)	-	-	-	(63,770)	(63,770)
Increase (decrease) in net deferred income tax asset (Notes 2, 6)	N/A	N/A	N/A	11,613	11,613
Balances, December 31, 2002	<u>\$ 16,240</u>	<u>\$ 107,038</u>	<u>\$ (89,285)</u>	<u>\$ (10,290)</u>	<u>\$ 23,703</u>

The accompanying notes are an integral part of the financial statements.

CLARION AMERICAN SECURITIES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

	For the Years Ended December 31	
	2002	2001
Cash flows from operating activities:		
Net income (loss)	\$ (21,154)	\$ (5,649)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	272	381
Deferred income taxes	16,214	(763)
Change in assets and liabilities:		
Decrease (increase) in:		
Corporate income tax estimates	-	(140)
Prepaid expenses	64	(382)
Increase (decrease) in:		
Accounts payable	-	(492)
Corporate income taxes payable	-	(211)
Payroll taxes payable	5,785	3,706
Personal property taxes payable	(136)	-
Net cash provided by (used for) operating activities	<u>1,045</u>	<u>(3,550)</u>
Cash flows from investing activities:		
Purchase of office equipment	<u>(350)</u>	<u>-</u>
Net cash used for investing activities	<u>(350)</u>	<u>-</u>
Net increase (decrease) in cash	\$ 695	\$ (3,550)
Cash at beginning of year	<u>752</u>	<u>4,302</u>
Cash at end of year	<u>\$ 1,447</u>	<u>\$ 752</u>

See Also Note 11 for supplemental cash flow disclosures.

The accompanying notes are an integral part of the financial statements.

CLARION AMERICAN SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND DECEMBER 31, 2001

Note 1 - Nature of Operations

Clarion American Securities, Inc. introduces and forwards, as a broker, all transactions and accounts of customers to another broker or dealer who carries such accounts on a fully disclosed basis. Clarion American Securities, Inc. promptly forwards all funds received from customers in connection with its activities as a broker.

Note 2 - Summary of Significant Accounting Policies

Basis of Statement Preparation

The company's accounts are maintained on the accrual basis of accounting. As such, revenues are recognized when earned, and expenses and related liabilities are recorded in the period incurred.

Revenues from preliminary due diligence and market feasibility studies are recorded when received. These revenues are mutually agreed to be non-accountable and nonrefundable.

Revenues from underwriting contracts are recognized using the percentage of completion method, measured by costs and services incurred or performed as of the date of financial statements, over total costs and services expected to be incurred. Any revenues associated with direct costs, such as legal expenses, are recorded in the period such expenses are incurred.

Use of Estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Fixed Assets and Related Depreciation

Office equipment, furniture, and fixtures are recorded at cost. Depreciation is calculated using accelerated methods over the estimated useful lives of the assets. Maintenance and repairs are charged to operations; betterments are capitalized. The cost of fixed assets sold or otherwise disposed of and the related accumulated depreciation accounts, and any resulting gain or loss is credited or charged to income.

Financial Instruments

Other than securities described below, the company has no financial instruments for which the carrying value materially differs from fair value.

Security Valuation

Investments in securities traded on a national securities exchange (or reported on NASDAQ national market) are stated at the last reported sales price on the day of valuation. The first-in, first-out method is used to determine the cost of each security at the time of sale. These securities are subject to off balance sheet risk due to the fact that market values are unpredictable.

CLARION AMERICAN SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2002 AND DECEMBER 31, 2001

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Income Taxes

Income tax expense is based on pre-tax financial statement income with an appropriate deferred tax provision to provide for the tax effect of temporary timing differences between financial statement income and federal taxable income. The temporary timing differences relate to net operating loss carryforwards and contribution carryforwards and unrealized gains and losses on securities.

Note 3 - Investment in Common Stock

The Investment in common stock is available for sale with an identified cost of \$39,585. Unrealized gains and losses are recorded as comprehensive income in the statement of stockholders equity. Realized gains and losses are included in income in the period they are realized. The cost, unrealized gains (losses), and deferred income liability related to the investment in common stock as of December 31, 2002 and December 31, 2001 are as follows:

	December 31	
	2002	2001
Cost - investment in common stock	\$ 39,585	\$ 39,585
Unrealized gain (loss) on security	(10,290)	53,480
Total fair market value	<u>\$ 29,295</u>	<u>\$ 93,065</u>
Cummulative unrealized gain (loss) on security	\$ (10,290)	\$ 53,480
Less: Deferred income tax asset (liability)	-	(11,613)
Accumulated unrealized gain on securities, net of deferred income taxes	<u>\$ (10,290)</u>	<u>\$ 41,867</u>

Note 4 - Fixed Assets

The cost of assets held and related accumulated depreciation are summarized as follows:

<u>Cost</u>	December 31	
	2002	2001
Office equipment	\$ 9,248	\$ 8,898
Furniture and fixtures	4,769	4,769
Total cost	14,017	13,667
Less: Accumulated depreciation	(13,737)	(13,465)
Net fixed assets	<u>\$ 280</u>	<u>\$ 202</u>

CLARION AMERICAN SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2002 AND DECEMBER 31, 2001

Note 5 - Related Party Transactions

Officer Salaries

For the years ended December 31, 2002 and December 31, 2001, Clarion American Securities, Inc. paid salaries of \$27,500 to the individual who is part of the tenants-in-common who own the common stock.

Note 6 - Income Taxes

Income tax expense (benefit) for the year ended December 31, 2002 consists of the following:

Year Ended December 31, 2002			
	Statement of Operations	Other Comprehensive Basis of Income	Total
Current:			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Total current income tax expense	-	-	-
Deferred:			
Federal	10,333	(7,388)	2,945
State	5,881	(4,225)	1,656
Total deferred income tax expense	16,214	(11,613)	4,601
Income tax expense (benefit)	\$ 16,214	\$ (11,613)	\$ 4,601

The deferred tax benefit (liability) is comprised of timing differences relating to the following:

	Dec 31, 2002
Net operating losses	\$ 905
Unrealized gain on securities	-
Total	\$ 905

As of December 31, 2002, the Company has federal and State net tax operating loss carryforwards available to offset its future federal and State income tax liabilities as follows:

Tax Year	Year of Expiration		Net Tax Operating Loss		Deferred Tax Benefit	
			Federal	State	Federal	State
1994	2005	*	\$ 13,097	\$ 11,910	\$ 1,823	\$ 941
1995	2005	*	525	525	73	41
1996	2005	*	360	1,215	40	96
1997	2005	*	51,763	51,763	7,151	4,089
1999	2005	*	9,677	9,677	1,337	765
2001	2007	*	3,514	3,514	485	278
2002	2008	*	655	655	90	52
	Total		\$ 79,591	\$ 79,259	\$ 10,999	\$ 6,262

CLARION AMERICAN SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2002 AND DECEMBER 31, 2001

Note 6 - Income Taxes (Cont'd)

* IRS Code Section 382 limits both the amount of net operating loss carryforwards and the year of expiration when there are changes in ownership (See Also Note 7 below). As a result, the year of expiration for the net operating losses is 5 years from the date of change in ownership. Based on the purchase price by the new owner, the amount of the Company's net operating loss available for carryforward is limited to the unrealized built-in gain at the time of change of ownership, but it can only be utilized when the related property (in this case, common stock) is sold.

Note 7 - Stockholders' Equity and Change in Ownership

In 1992, the Company issued 100 shares of no-par value common stock to its sole shareholder, Thomas S. Culver for \$16,240 at \$162.40 per share. On February 29, 2000 all 100 shares were sold by the sole shareholder to Michael A Nath (individual) and Chiron Capital Corporation (Wisconsin corporation) as tenants-in-common. Chiron Capital Corporation is a passive investor that has appointed Michael A Nath to act as agent and fiduciary for Chiron Capital Corporation with respect to all matters involving Clarion American Securities, Inc. The purchase price of the stock was \$100, or \$1.00 per share. As of December 31, 2002 and December 31, 2001, there were 8,000 shares of common stock authorized, and 100 shares of common stock issued and outstanding.

Note 8 - Net Capital Requirements

Clarion American Securities, Inc. introduces and forwards as a broker all transactions and accounts of customers to another broker or dealer who carries such accounts on a fully disclosed basis. Clarion American Securities, Inc. promptly forwards all funds received from customers in connection with its activities as a broker. Brokers who do not generally carry customers' accounts have to maintain net capital of not less than \$5,000 in accordance with Section 15c3-1 of the Securities and Exchange Commission Rules (SEC Rules).

As of December 31, 2002, and December 31, 2001, Clarion American Securities, Inc.'s excess net capital was \$9,259 and \$58,782, respectively.

The fact that Clarion American Securities, Inc. clears all customer transactions through another broker-dealer on a fully disclosed basis exempts the Corporation from having to provide information relating to the possession or control requirements in accordance with Section 15c3-3 of the SEC Rules.

Note 9 - Operating Lease

Rent

For the years ended December 31, 2002 and December 31, 2001, Clarion American Securities, Inc. used office space at the home of the principal shareholder. For the year ended December 31, 2002, rent amounted to \$3,560. For the year ended December 31, 2001, rent amounted to \$2,075.

There are no future minimum lease payments under operating leases with initial noncancelable lease terms of one year or more.

CLARION AMERICAN SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2002 AND DECEMBER 31, 2001

Note 10 - Contingent Liabilities

The Company was not involved in any litigation as defendant or plaintiff, which would materially change the company's financial position or results of operations.

See also Note 7 for information on change in ownership as of February 29, 2000.

Note 11 - Additional Cash Flow Disclosures

Cash outlays for interest expense amounted to \$405 for the year ended December 31, 2002 and \$0 for the year ended December 31, 2001.

Cash outlays (net refunds) by Clarion American Securities, Inc. for income taxes for the years ended December 31, 2002 and December 31, 2001 consisted of the following:

Description:	Year Ended December 31	
	2002	2001
Prior year's tax liability - Federal	\$ -	\$ 134
- State	-	77
Current year estimates - Federal	-	100
- State	-	40
Cash outlay (net refund)	<u>\$ -</u>	<u>\$ 351</u>

Note 12 - Risk Management

The company is exposed to various risks of loss related to torts; theft of damage to the destruction of assets; errors and omissions and natural disasters for which the company carries commercial insurance. There has been no significant reduction in coverage from the prior year, and settlements have not exceeded coverage in the past three years.

Note 13 - Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The ability of the Company to continue as a going concern is dependent upon management's ability to successfully negotiate payment terms with taxing authorities regarding delinquent payroll taxes, and obtaining the necessary licensing to permit the sale of common stock held for net capital purposes. These conditions raise doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

February 27, 2003

**To the Board of Directors of
Clarion American Securities, Inc.**

The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Our audit of the basic financial statements was made for the purpose of forming an opinion on those statements taken as a whole. The accompanying financial information has been subjected to the same procedures applied in the audit of the related basic financial statements.

In our opinion, the accompanying financial information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hau & Associates, S.C.

CLARION AMERICAN SECURITIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

	For the Year Ended December 31 2002	For the Year Ended December 31 2001
Stockholder's equity at the beginning of year	\$ 97,014	\$ 120,582
Add: Paid-in-capital	-	-
Net income (loss)	(21,154)	(5,649)
Other comprehensive income	(52,157)	(17,919)
Stockholder's equity at end of year	<u>\$ 23,703</u>	<u>\$ 97,014</u>

* * * * *

STATEMENTS OF CHANGES IN LIABILITIES SUBORDINATED

TO CLAIMS OF GENERAL CREDITORS

AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001

	As of December 31 2002	As of December 31 2001
Balance at beginning of year	\$ -	\$ -
Increases	-	-
Decreases	-	-
Balance at end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

CLARION AMERICAN SECURITIES, INC.

COMPUTATION OF NET CAPITAL

AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001

	As of December 31 2002	As of December 31 2001
Total stockholder's equity per statements of financial position	\$ 23,703	\$ 97,014
Less: Total nonallowable assets per statements of financial position	(9,444)	(33,232)
Net capital	<u>\$ 14,259 *</u>	<u>\$ 63,782 *</u>

* (See Note 8)

* * * * *

COMPUTATION OF EXCESS NET CAPITAL REQUIREMENT

AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001

	As of December 31 2002	As of December 31 2001
Net capital	\$ 14,259	\$ 63,782
Less: Minimum dollar net capital requirement - Note 8	(5,000)	(5,000)
Excess (deficiency of) net capital	<u>\$ 9,259</u>	<u>\$ 58,782</u>

* (See Note 8)

The accompanying notes are an integral part of the financial statements.

CLARION AMERICAN SECURITIES, INC.
RECONCILIATION OF THE UNAUDITED COMPUTATION OF NET CAPITAL
TO THE AUDITED COMPUTATION OF NET CAPITAL
AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001

	As of December 31 2002	As of December 31 2001
Unaudited net capital per focus report	\$ 23,409	\$ 34,079
Adjustments to asset accounts- increase (decrease):		
Cash	(2,053)	(848)
Corporate income tax estimates	140	140
Investment in common stock	3,014	46,626
Adjustments to liability accounts- decrease (increase):		
Corporate income taxes payable	-	-
Payroll taxes payable	(10,162)	(4,602)
Property taxes payable	(89)	-
Deferred income tax liability	-	(11,613)
Accounts payable	-	-
Audited net capital as of December 31, 2002 and December 31, 2001	<u>\$ 14,259</u>	<u>\$ 63,782</u>

* (See Note 8)

* * * * *

RECONCILIATION OF THE UNAUDITED COMPUTATION OF EXCESS NET CAPITAL
REQUIREMENT
TO THE AUDITED COMPUTATION OF EXCESS NET CAPITAL REQUIREMENT
AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001

	As of December 31 2002	As of December 31 2001
Unaudited excess net capital	\$ 18,409	\$ 29,079
Adjustments to asset accounts - increase (decrease):		
Cash	(2,053)	(848)
Corporate income tax estimates	140	140
Investment in common stock	3,014	46,626
Adjustments to liability accounts - decrease (increase):		
Corporate income taxes payable	-	-
Payroll taxes payable	(10,162)	(4,602)
Property taxes payable	(89)	-
Deferred income tax liability	-	(11,613)
Accounts payable	-	-
Audited excess (deficiency of) net capital as of December 31, 2002 and December 31, 2001	<u>\$ 9,259</u>	<u>\$ 58,782</u>

* (See Note 8)

The accompanying notes are an integral part of the financial statements.

February 27, 2003

**To the Board of Directors of
Clarion American Securities, Inc.**

Subject: Internal Accounting Control

In planning and performing our audit of the financial statements of Clarion American Securities, Inc., we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

During our audit we noted instances where accounting records could not be located when needed. The causes of the problem appeared to be a lack of a clearly specified system for filing records.

The management of Clarion American Securities, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, and oversight organizations and is not intended to be and should not be used by anyone other than these specified parties.

Hau & Associates, S.C.